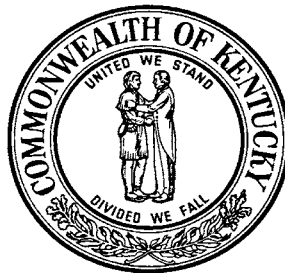


**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

July 8, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MCLEAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

July 8, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for McLean County Sheriff as of July 8, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,252,625 for the districts for 2001 taxes, retaining commissions of \$86,950 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,163,794 to the districts for 2001 Taxes. Taxes of \$854 are due to the districts from the Sheriff and refunds of \$235 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$287,878 To Protect Deposits
- Lacks Adequate Segregation Of Duties

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2001 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Whitaker, McLean County Judge/Executive
Honorable Judy Stratton, McLean County Sheriff
Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the McLean County Sheriff's Settlement - 2001 Taxes as of July 8, 2002. This tax settlement is the responsibility of the McLean County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McLean County Sheriff's taxes charged, credited, and paid as of July 8, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Whitaker, McLean County Judge/Executive
Honorable Judy Stratton, McLean County Sheriff
Members of the McLean County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$287,878 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 16, 2002

MCLEAN COUNTY
JUDY STRATTON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

July 8, 2002

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 292,012	\$ 191,811	\$ 1,049,666	\$ 357,781
Tangible Personal Property	26,019	12,884	83,724	68,455
Intangible Personal Property				10,230
Bank Shares				
Fire Protection	515			
Taxes Increased Through				
Erroneous Assessments	47	30	170	58
Omitted Taxes	61	35	216	84
Franchise Corporation Taxes	43,573	22,768	143,369	
Additional Billings	292	187	1,048	357
Omitted Unmined Coal Taxes	495	317	1,781	607
Unmined Coal - 2001 Taxes	209	134	750	256
Oil and Gas Property Taxes	2,822	1,805	10,143	3,457
Gas Property Taxes	102	65	365	124
Interest on Prior Year Franchise Bills	300	169	1,049	
Penalties	2,624	1,670	9,406	3,220
Adjusted to Sheriff's Receipt	(21)	15	(92)	(32)
Gross Chargeable to Sheriff	<u>\$ 369,050</u>	<u>\$ 231,890</u>	<u>\$ 1,301,595</u>	<u>\$ 444,597</u>
<u>Credits</u>				
Exonerations	\$ 1,147	\$ 738	\$ 4,120	\$ 1,368
Discounts	4,509	2,884	16,016	6,107
Delinquents:				
Real Estate	7,319	4,686	26,303	8,965
Tangible Personal Property	57	28	184	207
Intangible Personal Property				74
Delinquent Omitted Bills	28	16	98	38
Uncollected Franchise Taxes	<u>2,000</u>	<u>1,043</u>	<u>6,572</u>	
Total Credits	<u>\$ 15,060</u>	<u>\$ 9,395</u>	<u>\$ 53,293</u>	<u>\$ 16,759</u>
Taxes Collected	\$ 353,990	\$ 222,495	\$ 1,248,302	\$ 427,838
Less: Commissions *	<u>15,332</u>	<u>9,456</u>	<u>43,691</u>	<u>18,471</u>
Taxes Due	\$ 338,658	\$ 213,039	\$ 1,204,611	\$ 409,367
Taxes Paid	338,393	212,911	1,203,728	408,762
Refunds (Current and Prior Year)	<u>84</u>	<u>53</u>	<u>300</u>	<u>825</u>
Due Districts or (Refunds) Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ 181</u>	<u>\$ 75</u>	<u>\$ 583</u>	<u>\$ (220)</u>

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY
 JUDY STRATTON, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 July 8, 2002
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	994,322
3.5% on	\$	1,248,302

** Special Taxing Districts:

Health District	\$	50
Extension District		40
Watershed District		<u>(15)</u>
Due Districts or (Refund) Due Sheriff	\$	<u><u>75</u></u>

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS

July 8, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 5, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$287,878 of public funds uninsured and unsecured.

MCLEAN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 July 8, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 5, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,074,320
Uncollateralized and uninsured	<u>287,878</u>
Total	<u>\$ 1,462,198</u>

Note 4. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2001 through May 6, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2001 through May 6, 2002.

Note 5. Interest Income

The McLean County Sheriff earned \$493 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of December 16, 2002, the Sheriff owes \$15 in interest to the school district.

Note 6. Sheriff's 10% Add-On Fee

The McLean County Sheriff collected \$12,874 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

MCLEAN COUNTY
NOTES TO THE FINANCIAL STATEMENT
JULY 8, 2002
(Continued)

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
July 8, 2002
(Continued)

Note 7. Advertising Costs And Fees

The McLean County Sheriff collected \$2,240 of advertising fees and \$875 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office.

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$371 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

MCLEAN COUNTY
JUDY STRATTON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

July 8, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$287,878 To Protect Deposits

On December 5, 2001, \$287,878 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties which we consider to be both a reportable condition and a material weakness. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the McLean County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the McLean County Sheriff's Settlement - 2001 Taxes as of July 8, 2002, and have issued our report thereon dated December 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McLean County Sheriff's Settlement - 2001 Taxes as of July 8, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that are required to be reported under Government Auditing Standards.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$287,878 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McLean County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The lack of an adequate segregation of duties is a reportable condition which is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 16, 2002

